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RUEHAC/AMEMBASSY ASUNCION 0951  
RUEHBO/AMEMBASSY BOGOTA 7808  
RUEHBR/AMEMBASSY BRASILIA 6066  
RUEHBU/AMEMBASSY BUENOS AIRES 1757  
RUEHLP/AMEMBASSY LA PAZ 2771  
RUEHPE/AMEMBASSY LIMA 1048  
RUEHSP/AMEMBASSY PORT OF SPAIN 3596  
RUEHQT/AMEMBASSY QUITO 2862  
RUEHSJ/AMEMBASSY SAN JOSE 1240  
RUEHSG/AMEMBASSY SANTIAGO 4071  
RUEHDG/AMEMBASSY SANTO DOMINGO 0590  
RUMIAAA/HQ USSOUTHCOM MIAMI FL  
RHEHAAA/WHITEHOUSE WASHDC  
RHEBAAA/DEPT OF ENERGY  
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RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000912

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD  
NSC FOR JSHRIER

E.O. 12958: DECL: 06/27/2018  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)  
SUBJECT: PDVSA'S MARKETING MESS

REF: A. CARACAS 378  
[1](#)B. CARACAS 660  
[1](#)C. CARACAS 598  
[1](#)D. CARACAS 565

Classified By: Economic Counselor Darnall Steuart for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: PDVSA is not shipping asphalt and other products to the U.S., a violation of a supply contract with Nustar Refining. PDVSA has been having problems placing its Monagas 18 crude due to its composition. PDVSA is still facing a myriad of problems at its refineries and continues to try and increase its crude production. Rumors abound that PDVSA will be buying controlling stakes in major Venezuelan service companies.

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STILL NO ASPHALT FOR U.S. MARKET  
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[1](#)2. (C) Economic Counselor and Petroleum Attache met with a shipping executive and a marketing executive from the private sector on June 27 to discuss the current state of PDVSA's operations. The shipping executive began the meeting by stating that PDVSA is not honoring a contract to supply Nustar Refining with products (asphalt and roofer's flux). Nustar purchased Citgo's asphalt refineries in Paulsboro, NJ and Savannah, GA in late 2007. As part of the sale, Energy Vice Minister Bernard Mommer negotiated two sales contracts, one for crude and a second for products. (NOTE: Both executives stated there are allegations of corruption surrounding the contracts due to the nature of the product contract terms. END NOTE). The shipping executive explained that the two asphalt refineries were unable to meet the east coast market's demand for asphalt and Citgo imported about 40% of its asphalt and roofer's flux from Venezuela to meet its customers' needs. As a result, Nustar wanted a products contract on top of a contract to provide feedstock to the two refineries at the time of purchase.

[1](#)3. (C) PDVSA has declined to honor the products contract on

the grounds that the contract was made with the Energy Ministry rather than with PDVSA directly. Since PDVSA is not a party to the contract, it is claiming that it is not legally binding on PDVSA. The shipping executive stated his company spent USD 700,000 positioning a vessel to begin deliveries to Nustar under PDVSA's May shipping schedule only to be told that PDVSA would not be honoring the supply contract. The executives also noted that PDVSA's refusal to honor the supply contract is consistent with President Chavez' January announcement banning Venezuelan asphalt exports to the U.S. (Reftel A).

¶4. (C) The shipping executive noted PDVSA is continuing to honor the crude supply contracts with Nustar. According to both executives, PDVSA is shipping Boscan and Bachillero crudes from Lake Maracaibo to Nustar.

¶5. (C) When asked about asphalt production, the executives replied that the domestic market is currently taking about 4,000 barrels of production per day. The rest of the production is currently being sent to Costa Rica. The shipping executive stated Venezuela is claiming that the shipments are part of Petrocaribe despite the fact that Costa Rica is not a party to Petrocaribe.

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MONAGAS 18: NOT A MARKETING PANACEA  
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¶6. (C) As reported in Reftel B, PDVSA raised the API of the Petromonagas upgrader's syncrude from 16 to 18 API as a

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result of ExxonMobil's refusal to accept Petromonagas' syncrude at its Chalmette refinery. When asked about the change, the marketing executive stated ExxonMobil's decision created serious hardships for PDVSA. Since very few refineries are geared to take the 16 API crude, PDVSA quickly found itself with a rapidly increasing supply of the syncrude. PDVSA initially stored the crude in the Caribbean and then used three small tankers to lighter the crude to a VLCC for shipment to China. Although PDVSA thought that increasing the API of the crude to 18 would significantly increase its marketability, the shipping executive stated that refineries are loath to accept the new crude due to its composition.

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REFINERIES STILL A PROBLEM  
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¶7. (C) According to the executives, PDVSA refineries continue to suffer from a myriad of problems. In addition to problems with gasoline production outlined in Reftel A, the refineries have had problems with their electricity supplies. The nationwide blackout in April (Reftel C) halted production at the Bajo Grande refinery. According to the marketing executive, the refinery is still off-line. In addition, the giant Cardon and Amuay refineries in the Paraguana peninsula have also suffered from problems with their supply of electricity. Production at Cardon was seriously affected when a back-up power system failed to come on line during another power outage.

¶8. (C) Production problems at PDVSA and Citgo refineries have resulted in a decision to market only the refineries' actual production rather than going to the market to meet shortcomings in supply contracts. The marketing executive stated PDVSA is currently sending four monthly shipments of gasoline to the U.S. market, down from six shipments. In addition, aviation fuel production has declined.

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SERVICE COMPANIES  
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¶9. (C) When asked about PDVSA's decision to create service joint ventures (Reftel D), the marketing executive surprised Econoffs by stating PDVSA planned to create the joint

ventures by purchasing controlling stakes in major local service companies Inelectra, Technoconsult, and Otepi. The executive stated the BRV originally wanted a 60% stake in each company. However, it later decided to seek a 100% stake in Inelectra due to its prominence in the local market.

¶10. (C) The marketing executive stated Otepi has declined to sell out to the BRV but that the other companies are eager to do so. Both executives believe the BRV is willing to pay prices that are well above market for the shares. They opined that government officials would receive kickbacks in order to turn a blind eye to the inflated valuations. Given the lucrative price for their shares as well as guaranteed market share for the resulting joint venture in which they would still participate, the local service company owners have every reason to sell out to the BRV. Their employees, however, are already looking for new jobs because they assume a government takeover would be accompanied by the firing of politically suspect employees.

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CRUDE PRODUCTION  
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¶11. (C) Both executives were relatively optimistic regarding overall crude production. Although neither of them thought Venezuela would significantly increase production in the near

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term, the marketing executive stated PDVSA is gradually turning production over to private sector partners. For instance, CNPC's service company affiliate has been given operational control of significant fields. In addition, international service company Schlumberger has been quietly working to increase its presence in Venezuela and gain integrated service contracts that would allow it to control operations in major fields. The marketing executive was confident that Schlumberger's efforts would bear fruit in the near to medium term.

DUDDY